



1 EDUCATION AND WORKFORCE DEVELOPMENT CABINET

2 Kentucky Board of Education

3 Department of Education

4 (Amendment)

5 702 KAR 3:130. Internal accounting.

6 RELATES TO: KRS Chapter 45A, 61.410, 66.480, 156.029, 156.076, 156.160, 156.200, 158.290,
7 Chapter 160, 161.540, 161.560, 342.640, 424.260

8 STATUTORY AUTHORITY: KRS 156.070, 156.160

9 NECESSITY, FUNCTION, AND CONFORMITY: KRS 156.070(1) gives the Kentucky Board of
10 Education the management and control of the common schools. KRS 156.200 requires the
11 Kentucky Board of Education to regulate accounting procedures and reports of local school
12 districts. This administrative regulation establishes uniform procedures for the accounting of
13 school activity funds.

14 Section 1. Definition. "Activity funds" means all school funds including funds derived from
15 fundraising activities sponsored under the auspices of the school and does not mean funds raised
16 or received by organizations which do not come under the direct supervision of school authorities.

17 Section 2. District Responsibilities. (1) A district board of education shall have the responsibility
18 for administration and control of all activity funds and comply with "Accounting Procedures for
19 Kentucky School Activity Funds", which is also known as the "Redbook".

20 (2)(a) ~~[The August 2007 edition of the Redbook shall be used until June 30, 2013.]~~

21 (b) The March 2013 edition of the Redbook shall be used through July 31, 2019 [beginning July

1 ~~1, 2013~~].

2 (b) The August 2019 edition of the Redbook shall be used beginning on August 1, 2019.

3 Section 3. Audits. (1) Activity fund internal accounts shall be audited annually by a certified public
4 accountant, and a report shall be made to the district board of education.

5 (2) Audit reports shall be reviewed and accepted by the local board of education, and appropriate
6 action taken.

7 (3) Recommendations and exceptions listed in the audit shall be reviewed by staff of the
8 Department of Education.

9 (4) A copy of the school audit report shall be on file in both the office of the principal and the
10 office of the superintendent of the local school district. It shall be open for public inspection in
11 both locations.

12 Section 4. Incorporation by Reference. (1) "Accounting Procedures for Kentucky School Activity
13 Funds", August 2019 [~~2013~~], is incorporated by reference.

14 (2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the
15 Department of Education, Division of District Support, 300 Sower Boulevard, 4th Floor [~~15th~~
16 ~~Floor, Capital Plaza Tower, 500 Mero Street~~], Frankfort, Kentucky, Monday through Friday, 8
17 a.m. to 4:30 p.m.

This is to certify that the chief state school officer has reviewed and recommended this administrative regulation prior to its adoption by the Kentucky Board of Education, as required by KRS 156.070(5).

6/13/2019
(Date)

6/13/19
(Date)

Wayne D. Lewis
Wayne D. Lewis, Ph.D.
Commissioner of Education

Hal Heiner / TA
Hal Heiner, Chairperson
Kentucky Board of Education

PUBLIC HEARING AND PUBLIC COMMENT PERIOD: A public hearing on this administrative regulation shall be held on July 29, 2019 at 10:00 am, in the State Board Room, Fifth Floor, 300 Sower Boulevard, Frankfort, Kentucky. Individuals interested in being heard at this hearing shall notify this agency in writing by 5 workdays prior to the hearing, of their intent to attend. If no notification of intent to attend the hearing is received by that date, the hearing may be cancelled. This hearing is open to the public. Any person who wishes to be heard will be given an opportunity to comment on the proposed administrative regulation. A transcript of the public hearing will not be made unless a written request for a transcript is made. If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted through July 31, 2019. Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to:

CONTACT PERSON: Deanna Durrett, General Counsel, Kentucky Department of Education, 300 Sower Boulevard, 5th Floor, Frankfort, KY 40601, phone 502-564-4474, fax 502-564-9321, email regcomments@education.ky.gov

REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Regulation Number: 702 KAR 3:130
Contact Person: Deanna Durrett, Deanna.Durrett@education.ky.gov
Phone Number: 502-564-4474

(1) Provide a brief summary of:

(a) What this administrative regulation does:

This administrative regulation amendment makes necessary updates to the Accounting Procedures for Kentucky School Activity Funds (aka "Redbook") which establishes a uniform accounting method for the receipt and expenditure of school activity fund monies. The Redbook was last updated in 2013.

(b) The necessity of this administrative regulation:

Since the last amendment of this regulation in 2013, Kentucky Department of Education staff, school district finance officers and school district auditors have identified necessary changes to accounting and reporting processes, as well as best practices, that have been incorporated into the amendment.

(c) How this administrative regulation conforms to the content of the authorizing statutes:

KRS 156.070 charges the Kentucky Board of Education with the management and control of all common schools, and requires the state board to promulgate administrative regulations for the efficient management and control of the schools. KRS 156.200 requires the Commissioner of Education to ensure that all school district financial and educational accounts are accurately and neatly kept. This regulation establishes uniform policies and procedures for the proper accounting of school activity funds.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes:

KRS 156.070 charges the Kentucky Board of Education with the management and control of all common schools, and requires the state board to promulgate administrative regulations for the efficient management and control of those schools. KRS 156.200 requires the Commissioner of Education to ensure that all school district financial and educational accounts are accurately and neatly kept. This administrative regulation sets forth uniform accounting procedures to ensure all school districts handle school activity funds properly and in accordance with accounting standards.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation:

The regulation amendment updates the Accounting Procedures for Kentucky School Activity Funds also known as the "Redbook" which districts use for the proper reporting of revenue and expenditures related to school activity funds.

(b) The necessity of the amendment to this administrative regulation:

The Redbook has not been updated since 2013 and over time auditors and school districts have identified accounting and reporting issues and best practices that are included in the updated edition.

(c) How the amendment conforms to the content of the authorizing statutes:

KRS 156.070 charges the Kentucky Board of Education with the management and control of all common schools, and requires the state board to promulgate administrative regulations for the efficient management and control of those schools. KRS 156.200 requires the Commissioner of Education to ensure that all school district financial and educational accounts are accurately and neatly kept. This administrative regulation sets forth uniform accounting procedures to ensure all school districts handle school activity funds properly and in accordance with accounting standards.

(d) How the amendment will assist in the effective administration of the statutes:

KRS 156.070 charges the Kentucky Board of Education with the management and control of all common schools, and requires the state board to promulgate administrative regulations for the efficient management and control of those schools. KRS 156.200 requires the Commissioner of Education to ensure that all school district financial and educational accounts are accurately and neatly kept. This administrative regulation sets forth uniform accounting procedures to ensure all school districts handle school activity funds properly and in accordance with accounting standards.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation:

The amendment updates the Accounting Procedures for Kentucky School Activity Funds or the "Redbook" as it is commonly known, and will impact all 173 Kentucky school districts.

(4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment:

Training on accounting procedures is currently provided to local school districts by the Kentucky Department of Education. The department will update the existing training to include any new requirements or changes accordingly.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3):

This amendment is not expected to have a fiscal impact on school districts. Training on accounting procedures is currently provided to local school districts by the Kentucky Department of Education. The department will update the existing training to include any new requirements or changes accordingly.

(c) As a result of compliance, what benefits will accrue to the entities identified in question (3):

The amendment provides for a uniform set of accounting procedures for local school districts to report the receipt and expenditure of school activity funds. This ensures that all funds are accurately accounted for according to acceptable accounting standards. This regulation promotes good policies and procedures and protects school funds and school personnel.

(5) Provide an estimate of how much it will cost to implement this administrative regulation:

(a) Initially:

Any costs should be minimal and related to staff time in attending trainings. The Kentucky Department of Education provides training to local school district personnel on accounting procedures for school activity funds.

(b) On a continuing basis:

Any costs should be minimal and related to staff time in attending trainings. The Kentucky Department of Education provides training to local school district personnel on accounting procedures for school activity funds.

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation:

Kentucky Department of Education General Funds

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change, if it is an amendment:

There are no fees associated with the regulation amendment.

(8) State whether or not this administrative regulation established any fees or directly or indirectly increased any fees:

There are no fees associated with the regulation.

(9) TIERING: Is tiering applied?

Tiering is not applied. This regulation applies to all public school districts. There are no fees associated with this regulation amendment.

FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

Regulation Number: 702 KAR 3:130
Contact Person: Deanna Durrett, Deanna.Durrett@education.ky.gov
Phone Number: 502-564-4474

1. What units, parts or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation?
The regulation amendment applies to School Districts. It establishes uniform accounting procedures for the receipt and expenditure of student activity funds. The regulation will not fiscally impact the districts.

2. Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation.
KRS 156.070, 156.160, 156.200

3. Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year?

This amendment will not generate any additional revenue. There is no fiscal impact expected from the amendment. Training on accounting procedures is currently provided to local school districts by the Kentucky Department of Education. The department will update the existing training to include any new requirements or changes accordingly.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years?

This amendment will not generate any additional revenue. There is no fiscal impact expected from the amendment.

(c) How much will it cost to administer this program for the first year?

N/A. This is not a program. The regulation amends to update the accounting procedures for school districts student activity funds. There should be no new costs associated with this regulation.

(d) How much will it cost to administer this program for subsequent years?

N/A. This is not a program. The regulation amends to update the accounting procedures for school districts student activity funds. There should be no new costs associated with this regulation.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-): N/A

Expenditures (+/-): N/A

Other Explanation:

The regulation amendment applies to School Districts. It establishes uniform accounting procedures for the receipt and expenditure of student activity funds. The regulation will not fiscally impact the districts.

Summary Page - Incorporation by Reference

702 KAR 3:130. Internal accounting

The following documents are incorporated by reference:

(1) "Accounting Procedures for Kentucky School Activity Funds", August 2019. The document incorporated by reference consists of 68 pages. The document incorporated by reference establishes a uniform accounting method for the receipt and expenditure of school activity fund monies. The Redbook was last updated in March of 2013. The most noticeable changes are the inclusion of frequently asked questions incorporated throughout the document and updating the forms to better exemplify what is actually happening in each district and what auditors are looking for as internal controls. Most of the other changes are minor and reflect what districts may already be doing or what auditors are recommending districts incorporate as additional internal controls.

SUMMARY OF CHANGES TO MATERIAL INCORPORATED BY REFERENCE

Page	Changes	Reason
1	Replaced KDE Logo	Updated to current logo
7	Replaced "may" to "shall" in first bullet	New GASB provision...inadvertently had the wrong wording in this new section on how to handle District Activity Funds vs. Student Activity Funds
7	Inserted District Activity Fund Procedures	Providing detail on how to account for funds raised by non-students (such as parents, teachers, and gate receipts)
8	#3 - Changed the requirement of grade students turning in money need to sign the Multiple Receipt Form. Old requirement was third grade and above, new requirement is sixth grade and above	Third grade and above was found to be very time consuming and impractical at the elementary level. The new level of sixth grade and above is more age appropriate
8	#6 - New monthly procedure for receipts	Provide consistency in each school so each auditor, finance officer, and bookkeeper can expect dependable documentation
9	#17 - Added language "No dues, fees, or charges are allowed by external account/booster organizations"	Clarity needed to be given in this area. Only the local board can adopt fees and charges.
9	#5 - Provided three ways to supplement staff accounts	No guidance had previously been given
11	#8 - Added "Non-paying customers should not receive a ticket (for reconciliation purposes)"	To aid in the reconciliation process of the tickets sold for each event
12	#4 - Added the \$250 floor for issuing a Donation Acceptance Form	To mirror IRS guidelines

13	#7 Added Form F-SA-19 (Donated Gift Card Log)	To provide transparency when receiving and disbursing gift cards obtained from community merchants and others
13	Added verbiage on who signs checks	Based on where the district decides to have their school activity funds housed...at the school level as they currently do, or at the district level which would be a new process
13	#4 - Added "Checks cannot be held for more than three business days prior to mailing or delivering the check	Helps to ensure vendors are timely paid and can also lower chances of theft and lost checks
14	#13 - Outstanding checks are not to be held longer than 12 months	Internal control measure to help clean up old checks
17	Removed chart contained in old Redbook showing work performed vs. worker status	The IRS is the authoritative source regarding worker status, not the Redbook
19 (allowed)	#4 - added playground equipment and band instruments	Smaller districts may need to fundraise thru their activity account to purchase such items
19 (allowed)	<p>#5 - Added Athletic field stripping, quick dry materials; staff meals from staff generated fund</p> <p>#6 - Added Expenditures for student activities approved on the Fundraiser Approval Form</p> <p># 14 - Added coaches cards purchased for district employees who are specifically paid for coaching duties</p> <p>#15 - Added promotional credits from vendors for purchasing equipment and attire must benefit students, not adult coaches and sponsors</p>	Provide clarification on allowable costs
19 (disallowed)	# 3 - Added regular care and upkeep of school property	Provide clarification on unallowable costs

20 (disallowed)	#10 - Removed firearms and weapons	Schools now offer archery and sports with firearms
20 (disallowed)	<p>#16 - Added Payment or reimbursement of costs associated with parents, volunteers, or chaperones participating on school trips (unless the chaperone is required by district policy due to adult/student ration for out of district field trips)</p> <p>#17 - State tournament tickets and associated expenses for non-students; unless the school's student or team is participating in the tournament</p> <p>#18 - Fundraising or crowdfunding for an individual's or families personal benefit (bereavement, illness, injury, natural disaster, extreme loss, etc.)</p>	Provide clarification on unallowable costs
25	#3 - No dues, fees, or charges shall be assessed to students or parents by a support/booster organization	All of their funds are to be derived from fund- raising activities and donations
25	#14 – External accounts cannot reimburse district employees for personal and booster club purchases	Internal control purposes and prone to abuse by employees
29	Added definitions for District Activity Funds, Fees and Charges, and Fundraiser	To provide clarity throughout the Redbook
31	Added definition for Operational Expenses	To provide clarity throughout the Redbook
33	Added definition for Student Generated	To provide clarity throughout the Redbook
33-54	All Forms were slightly updated	To make them more user friendly based on district and auditor feedback